Nine questions to ask when considering alternative service delivery models in health care

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The burden on US health organizations to be competitive, deliver high-quality care and maintain financial sustainability has been put to the test throughout the COVID-19 pandemic.

In order for legacy health care organizations to enhance their long-term competitiveness, chief human resource officers (CHROs), chief operating officers (COOs) and chief financial officers (CFOs) can strongly consider outsourcing and offshoring operational capabilities.

Even before the coronavirus pandemic, continued evolution in the sector — including consumer, regulatory and competitive pressures — already was forcing more traditional health care organizations to think aggressively about business and operating model changes. This evolution includes the explosion of nontraditional market entrants that are not just potential threats but represent viable disruption to traditional models primarily through lower-cost, technology-enabled service delivery. In response, the health industry has seen elevated volumes of mergers and acquisitions (M&A) focused on vertical integration with the primary intention of transforming the operating model to be more efficient and benefit from economies of scale.

However, often due to M&A integration challenges, industry convergence strategies have not consistently realized the anticipated post-close financial and operational outcomes. With these pressures, forward-looking health companies have begun to more aggressively evaluate their sourcing models to achieve near-term reductions in the cost per unit of service delivery and accelerated integration.

Offshore operational models show immediate process efficiencies

As the world adjusts to alternative models of working (precipitated by the COVID-19 pandemic), the case for outsourcing and offshoring in health care as a means to reduce costs and improve productivity has strengthened. In fact, we have found that organizations that set up offshore operational models have been able to immediately apply process efficiencies. The challenges experienced as a result of new work models, digital connectivity and regulatory privacy requirements do not appear to disproportionately impact the offshore model. In addition, service delivery capabilities have evolved offerings, personnel and functions to support more complex business processes, around-the-clock operations, address hiring gaps, maintain operational continuity, improve quality and enhance service delivery. Key enablers of successful offshore models are global governance, automation tools, more mature talent pools, expanded service capabilities and rigorous go-live criteria.

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Four service delivery models and their benefits

Four service delivery models influence today's health care operating models. While some are more utilized than others, each offers a set of benefits in support of meeting the larger operating strategy of the organization. By applying a dynamic mix of sourcing models, health organizations can strengthen a customized solution for scale, flexibility and cost-effectiveness. These include:

1. **Business process outsourcing (BPO)**, when companies contract with a third-party vendor to provide select services with extremely limited ownership or control by the purchaser
2. **Insourcing (captive)**, when purchasers create, own and operate their own offshore business operations, often in the form of shared services or centers of excellence with sole control
3. **Build-operate-transfer (B-O-T)**, when a third-party vendor sets up and runs an outsourced team on the purchaser's behalf and the purchaser can "transfer back" oversight at their discretion
4. **Co-sourcing or joint venture (JV)**, when purchasers create a business arrangement combining resources and expertise that retains, but often shares, a purchaser's control

It is common for larger health care organizations to simultaneously leverage onshore, in-sourced models alongside BPOs or captives to meet the same strategic objective but delivered via a different mix of operational capabilities. BPOs allow for growth with a more rapid expansion of processes, vendors, locations and the ability to redesign inefficient operations while a captive model enhances control, accountability and focused talent development (along with increased capital requirements).

Identifying the best-fit service delivery strategy — with an open mind about what can or cannot be done caring for patients or within the four walls of your organization — is likely the key to thinking more disruptively about taking advantage of labor arbitrage and alleviating business inefficiencies to accelerate integration. The value of automation in this equation is a component as well as organizations are utilizing these techniques to reduce task-oriented processes performed by traditional insourced resources.

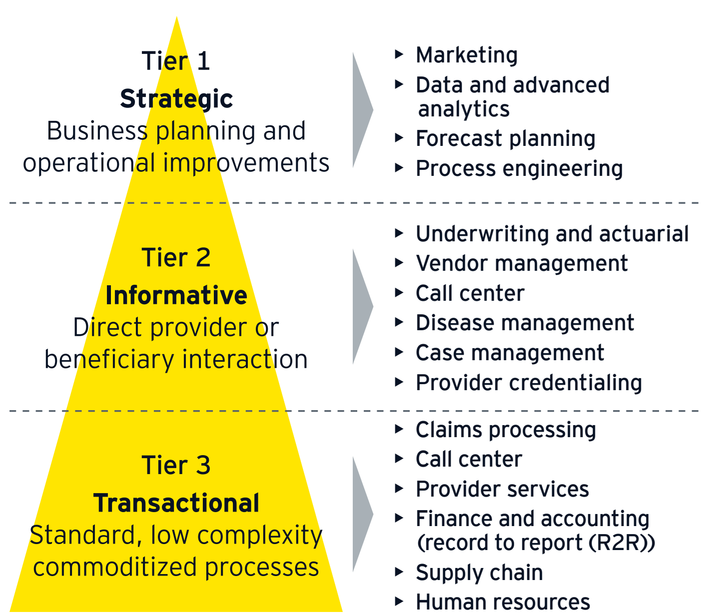
However, there are additional variables that must be considered when zeroing in on the preferred model to support accelerated integration, operational efficiencies and to realize value creation. For example, in a more remote work environment, these outsourced service delivery models require enhanced digital enablement and an infusion of analytics capabilities to support governance, operational efficiency, performance monitoring, privacy and the deployment of intelligent automation solutions.

Operational considerations

Ernst & Young LLP professionals worked with numerous clients across all industries in the strategic evaluation and implementation of outsourced service delivery models.

Based on that experience, Ernst & Young LLP professionals have developed a tiered business process framework to help health companies assess their processes by complexity, function and potential.

Sourcing tiers and processes



Outsourcing and offshoring processes and subprocessing across the tiered value spectrum are standard parts of most Fortune 100 companies' operational and structural strategy. While onshore third-party vendors gained popularity in health care, the industry has until recently had a limited appetite to apply offshore sourcing models. Recent trends in the health market illustrate that advanced players have applied the lessons learned from early adopters resulting in a realization of cost and quality benefits from strategically chosen Tier 2 and 3 processes.

Market study of health companies

To test the adoption and utilization of these models within the health care industry specifically, Ernst & Young LLP professionals led an industry-focused market study in late 2019 to assess the breadth and depth of the processes subcontracted to two popular sourcing models. The study drew upon more than 35 health care companies across the care continuum, including care delivery centers, hospitals, insurance, pharmaceutical, medical and equipment supply, and health technology solutions. Every business process conducted in each tier across each company was noted. The study also provided points of reference outside of the industry when there was a potential back-office and mid-office overlap. It should be noted that the scope of industry-specific processes that can be performed via these outsourced models has grown significantly during the past few years.

The market study found three pronounced findings in two dominant sourcing models, BPO and captive.

1. **Outsourcing is becoming the norm.** Nearly half of the health organizations are participating in at least one type of sourcing model as of late 2019.
2. **Provider or consumer interaction with outsourcing is burgeoning.** Nearly one-third of health organizations have attempted to outsource subprocesses that involve a provider or a consumer.
3. **Span of control matters.** Health organizations were significantly more willing to move strategic processes (e.g., marketing, data analytics, forecast planning and process engineering) to their insourced captive rather than to a BPO.

Percentage of companies choosing captive and BPO sourcing models

	Advantages	Tier 3 **Transactional**	Tier 2 **Informative**	Tier 1 **Strategic**
Captive	▸ Retain data privacy, process knowledge and skills ▸ Ease client resistance on offshoring ▸ Grow scope of operations, higher end services ▸ Build domain expertise ▸ Workforce engagement	49%	29%	26%
BPO	▸ Superior processes and automation tools ▸ Contract based on year-over-year (YoY) productivity ▸ Ability to compare processes with market standard ▸ Operational and financial flexibility	51%	34%	9%

Source: Ernst & Young LLP industry-focused market study assessing processes subcontracted to captive and BPO sourcing models, 2019. n = 35 health care companies, including care delivery centers, hospitals, insurance, pharmaceutical, medical and equipment supply, and health technology solutions.

How ready is your organization for an alternative service delivery model?

While some businesses like health systems are early in the adoption of alternate service delivery models, others are maturing to the point where their models mirror more established outsource utilizers such as health plans and life sciences companies. As you think about these options, you should consider these nine questions.

1. Have you **challenged your existing operating model** to aggressively examine what constitutes essential capabilities that need to be done in-house?
2. Is **executive leadership** aligned around alternative service delivery capabilities and have senior leaders committed to drive the change?
3. Are there **regulatory or bureaucratic restrictions** that impact the sourcing model?
4. Has the **timing** of the initial setup, transition and steady state been defined and communicated?
5. Does the offshore effort align with the dominant organizational **culture** to support integration efforts, identify new talent and retain the existing talent?
6. Has a **business case analysis** been developed to manage the strategic goals to include factors such as run-rate savings, operating costs, capital expenditures transition time frames and productivity improvement return assumptions?
7. Has the organization allotted separate investments for **technology enablement** to clone, transfer or enhance operations while enabling the workforce of the future?
8. Has the organization outlined **operational risks and developed mitigation plans** for caregivers, patients, beneficiaries, consumers and other vendors to minimize disruption?
9. Have **implementation risks and mitigation strategies** been outlined related to client restrictions, location challenges, access to talent, consensus building and vendor reliance as the organization pursues ongoing optimal care and protected revenue?

Each business process must be evaluated thoroughly using these considerations as part of exploring the operating model refinement. Until recently, health organizations were hesitant to look to outsourcing efforts (especially those offshore) due to the scale, complexity of the setup and the proximity of operations. However, the growing size of consolidated operations plus the need for more aggressive integration made offshored efforts more viable. In all cases, the trade-offs should be openly discussed with management and the operations team to validate the desired outcome.

Conclusion and call to action

As the health care industry continues to consolidate and experience disruption by lower-cost entrants, traditional companies must reassess their operating models to become more cost-effective. In response to the pressing forces of emerging models of working, innovation, technology-enabled competitors and the increasing frequency of M&A, it may be essential to drive cost reduction, more aggressive integration and competitiveness. Outsourcing and offshoring are examples proven to address those pressures in an ever-expanding way. That leaves health care companies then to focus on enhancing their financial and operational efficiencies and to drive value to their patients and customers.

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